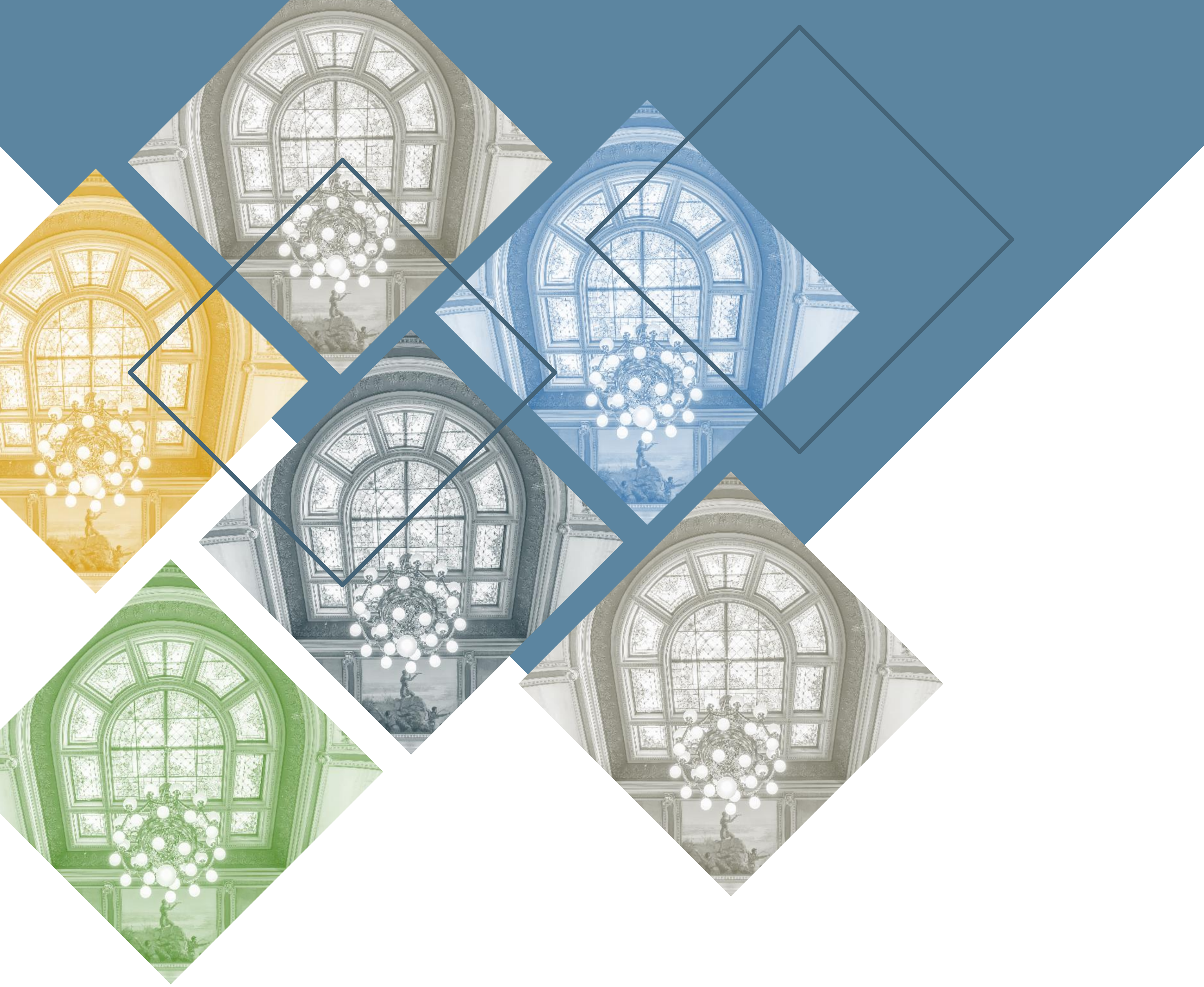

Other States' Approaches to Address Benefits Cliffs

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People face a benefits cliff when they receive public benefits from the government, earn a raise, and then discover they make too much money to receive the benefits. Benefits cliffs may disincentivize workers from accepting increased work hours and wages, leading to decreased economic opportunity for families and lessening the chance for families to exit support systems. Additionally, this creates workforce shortages for employers who must perpetually recruit, hire, and train for the same positions.

Several states have conducted studies and formed work groups to better understand benefits cliffs in order to develop policies aimed at minimizing or eliminating the cliff effect. These include changes or enhancements to public assistance programs, creation or revision of tax incentives, asset development programs, and workforce development programs.

Public Assistance Programs

The primary policy ideas involving public assistance programs help both administrators and recipients of the programs navigate through the complexity of the rules and regulations across the programs.

States design programs to define self-sufficiency standards to help individuals, families, and their caseworkers understand what earnings they need to achieve in order to transition away from public assistance programs through benefits calculators. Massachusetts and Michigan have developed calculators to help recipients gain an overview of how their expenses change when they increase income and begin losing government assistance, and Minnesota's Economic Stability Indicator provides information for policymakers on whether current or proposed legislation creates a benefits cliff.[1] Connecticut is currently working with the Federal Reserve Bank of Atlanta on calculators and tools for both policymakers and families.[2] On a multi-state level, the Urban Institute[3], National Center for Children in Poverty[4], and Federal Reserve Bank of Atlanta[5] have developed calculators for individuals to compare net resources and benefits available under different employment scenarios.

Other states review eligibility requirements for programs such as the Temporary Assistance for Needy Families (TANF) and Supplemental Nutrition Assistance Program (SNAP). Aligning eligibility levels includes adjusting asset limits, income disregards, and alignment of rules across the programs. Policies that enable workers to continue receiving public benefits while their income increases can be a way to simultaneously promote both work and family stability.[6]

Recently, Massachusetts revised its policy to allow for different entry and exit points for TANF, enabling eligibility at lower income and asset levels, and for exit at higher income levels. New Hampshire created a transition period where workers can continue to receive benefits while transitioning to new jobs. On a federal level, certain programs have indexed benefits relative to minimum wage increases.[7]

Another common policy reform among states involves childcare. For example, Pennsylvania revised the co-payment to subsidy ratio by increasing the eligibility level to 300% FPL or below 85% of state median income if the increased income is due to working additional wage-earning hours.[8] Similarly, Ohio increased the eligibility limit for childcare from 130 percent to 300 percent of FPL, and Nebraska modified redetermination requirements to ease with transition off the program.[9] Colorado has a county-based program, which enables counties to set income eligibility levels based on cost of living.

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1 https://scholarworks.umb.edu/cgi/viewcontent.cgi?article=1086&context=csp_pubs, p. 27.
2 https://www.ctoec.org/cliff
3 https://nicc.urban.org/netincomecalculator/
4 http://frs.nccp.org/tools/mtrc/; http://frs.nccp.org/tools/frs/
5 https://emar-data-tools.shinyapps.io/prd_dashboard/
6 Id at p. 31-32.
7 https://ascend.aspeninstitute.org/wp-content/uploads/2020/12/whole-family-approach-to-jobs-6-state-policy-brief-addressing-benefit-cliffs.pdf
8 https://www.legis.state.pa.us/cfdocs/Legis/LI/uconsCheck.cfm?txtType=HTM&yr=2015&sessInd=0&smthLwInd=0&act=0092.
9 https://scholarworks.umb.edu/cgi/viewcontent.cgi?article=1086&context=csp_pubs, p 33.

Tax Incentives

The state Earned Income Tax Credit (EITC) may have a significant impact on a family's financial situation. A benefits cliff study performed by the state of Maine in 2018 found that "tax credits, particularly refundable tax credits, work to counter declining benefits as earnings rise. In the absence of a holistic and integrated benefits structure that works across multiple assistance programs, tax credits can be used to create a more intentional and appropriate overall benefits structure."[10] 32 states and territories have a state ETIC, and all but six are refundable. The credit ranges from 3% to 125% of the federal EITC. Montana is the lowest with 3% of federal EITC. South Carolina is highest at 125%, and the average across all states is 22%.[11]

Rank	State	Percentage of Federal EITC	Refundable?
	Highest 5		
1	**South Carolina** Six equal installments of 20.83% each tax year until fully phased in in tax year 2023, with the 62.5% applying in tax year 2020	62.5& in 2020 125% by 2023	No
T2	**Maryland** Temporary raise to 45% until 1/1/2023, then reverts back to 28%. Taxpayers can alternatively claim a 50% nonrefundable credit	45% 50%	Yes No
T2	**Minnesota** Sets working families credit based on income. Matches the phaseout to the federal EITC phaseout	25% - 45%	Yes
T3	**Washington DC** **New Jersey**	40%	Yes
4	**Vermont**	36%	Yes
T5	**Massachusetts** **New York** **Ohio**	30%	Yes Yes No
	Lowest 5		
1	**Montana**	3%	Yes
2	**Wisconsin**	4% (one child) 11% (two children) 34% (three children)	Yes
T3	**Washington** Enacted refundable credit of 5% of federal EITC in tax year 2009. Scheduled to increase to 10% in 2010 but policymakers have not financed the credit. Beginning in 2023, Working Families Credit will be set on dollar amount, not percentages.	5%	Yes
T3	**Louisiana** **Oklahoma**	5%	Yes
4	**Michigan**	6%	Yes
5	**Oregon**	9% 12% (for families with children under the age of 3)	Yes

[10] https://www.jtgfoundation.org/wp-content/uploads/2019/06/Cliffs-Policy-Brief.pdf
[11] https://www.ncsl.org/research/labor-and-employment/earned-income-tax-credits-for-working-families.aspx

Asset Development Programs

Individual Development Accounts (IDA) allow low-income individuals to save money for certain uses, such as education, buying a home, or starting a business. IDA programs are operated by community-based organizations and sometimes state or local governments. The account holder's individual investment is matched by community-based organization through grants from the federal government and other sources. The income in an IDA is typically disregarded when determining eligibility for public assistance programs, which can help smooth the cliff effect.[12]

Maine established two programs to help income-eligible families save: a family development account program[13] which is a matched savings account to support education, training, a home purchase, or funds to start or expand a business; and a rainy day savings account[14] program which is a matched savings program for emergencies like car or house repair, expenses due to job loss, and short-term disability. Vermont has also established a matched savings account[15] program for first home purchases, higher education, and micro business.

Workforce Development Programs

Another strategy some states consider is working with employers and across agencies to understand the impact of benefits cliffs for workers. This includes developing career pathways or identifying high-growth occupations and opportunities for wage progression and developing smooth wage transitions. This approach involves intra-agency coordination to assist workers with personal and professional goal setting, career coaching, and financial counseling. Workforce development programs are designed to benefit both workers and employers.

Massachusetts has a "Learn to Earn" initiative which is a comprehensive approach to providing unemployed and underemployed individuals receiving assistance from public benefit programs with training in order to gain and retain employment in high demand occupations. The program is designed to maintain and grow net family resources, minimize the potential impact of increased income on benefit receipts, improve coordination across benefit programs, and reduce the benefit cliff effects.[16]

In Montana, the Department of Labor and Industry (DLI) and DPHHS work together to administer the Help-Link program, which is a form of the career pathway strategy described above. The 2021 Legislature passed House Bill 614 to expand and improve the program. Additionally, the Department of Revenue (DOR) and DLI administer the Registered Apprenticeship Program which also provides a path to high-growth, high pay occupations.

Summary

States use a variety of strategies to minimize the effects of benefits cliffs. These include policy changes to public assistance programs, tax incentives, and workforce development programs. Often states find a combination of policy changes produce the greatest effect.

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12 https://www.ncsl.org/Portals/1/Documents/cyf/Benefits-Cliffs_v03_web.pdf
13 https://www.cashmaine.org/build-your-savings/family-development-account-program/
14 http://newventuresmaine.org/uploads/2018/02/Rainy-Day-Savings-Q-and-A-2018-SRF.pdf
15 https://dcf.vermont.gov/benefits/VMS
16 https://www.mass.gov/service-details/learn-to-earn-initiative